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7-DEC 1956

**MEMORANDUM FOR: Deputy Director/Intelligence**

**SUBJECT : Alleged Withdrawal of China's Second Five-Year Plan**

1. A 3 December, 1956 Agence France Presse report from Hong Kong--purporting to relay information from a "most reliable source" in Peiping--states that at a plenary session of the Central Committee of the Chinese Communist Party between 10-15 November it was decided to withdraw the Second Five-Year Plan draft and to draft a new one using principles which would lead to a notable reorientation of the nation's economy. This story probably came from the AFP correspondent in Peiping, Jacques Locquin. Locquin is believed to have fairly good contacts in the Chinese Communist capital, but is given to spectacular, colorful and sometimes inaccurate reporting. He has, however, been used in the past by the Peiping authorities for release of minor stories, such as the invitation extended to American newspaper correspondents.

2. The AFP article alleges that recent events in Hungary and Poland contributed to the decision to withdraw the Second Five-Year Plan. It is difficult to tell whether the article was referring to the unhappy experiences of these countries in following economic policies which led to a drastic disproportion between increases in the means of production and advances in the people's livelihood, or to possible damage done to the export potential of Soviet Bloc countries by events of the past two months.

3. According to AFP, the "principles" of the new economic strategy to be followed in China include:

A. The cancellation of some US \$100,000,000 in contracts for big factories which have been placed abroad;

B. A shift from "gigantic projects" to the quicker returns of "small but versatile factories" producing small equipment and tools;

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C. An attempt to reduce costs by importing from neighboring countries items which they can produce more cheaply than China can (including, perhaps, the exchange in Far East and Southeast Asia markets of raw materials for cheap consumer goods); and

D. Drastic cuts in capital investments in order that salaries and peasant incomes may be increased.

4. Peiping has been sparing indeed of details concerning what transpired at the plenary session. Texts of the major speeches have not been released. Chou En-lai was reported to have said that there should be in 1957 "suitable retrenchment", within the framework of continued programs, in fields where there had been "overspending" in 1956. Official releases contained no suggestion that changes in the Second Five-Year Plan were considered.

5. It is doubtful that the Chinese Communists have made, or are about to make, substantial revisions in their stated economic policy of emphasizing the rapid expansion of heavy industry. Neither is a substantial cut expected in target figures, either for 1957 or for the Second Five-Year Plan. A major change in Peiping's export-import program in favor of importing large quantities of cheap consumer goods from neighboring countries--Japan is the only obvious candidate--at the expense of imports in support of heavy industry is also unlikely. It is possible that Peiping may wish to increase its imports of consumer goods provided it can open markets for raw materials which it is finding difficult to sell at present. Minor alterations designed to bring fringe benefits to the Chinese consumer are possible and have indeed been the subject of a series of actions taken by Peiping in recent months. These include the freeing of a sharply limited portion of domestic trade from absolute state control and a promise to narrow the price differential between agricultural products and goods sold the peasant.

6. As far as we know the Second Five-Year Plan is still in the drafting stage. The statement made by Chou En-lai to the Eighth Party Congress had to do with the "basic tasks" of

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the plan. A complete draft will probably not be released until next year.

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It can be assumed that the plan outline presented to the Eighth Party Congress was formulated in light of what the Soviets were willing to provide, making it doubtful that major revisions are now necessary. The tone of the Chinese economic pronouncements over the past few months, especially those calling for an "unprecedented economy drive," is reminiscent of some of the pronouncements which followed the prolonged negotiations leading to Soviet commitments for the First Five-Year Plan.

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**OTTO E. GUTHIE**  
Assistant Director  
Research and Reports

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